

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Ontwa Township Edwardsburg Police Departm</b>	County <b>Cass</b>
Audit Date <b>3/31/06</b>	Opinion Date <b>11/5/07</b>	Date Accountant Report Submitted to State: <b>12/17/07</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Siegfried Crandall PC</b>			
Street Address <b>246 East Kilgore Road</b>	City <b>Kalamazoo</b>	State <b>MI</b>	ZIP <b>49002-5599</b>
Accountant Signature <i>Siegfried Crandall P.C.</i>		Date <b>12/17/07</b>	

*Ontwa Township-Edwardsburg Police Department  
Cass County, Michigan*

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

*Year ended March 31, 2006*

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## CONTENTS

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	<i>Page</i>
<b>INDEPENDENT AUDITORS' REPORT</b>	3
<b>BASIC FINANCIAL STATEMENTS</b>	
Statement of governmental fund balance sheet/statement of net assets	4
Statement of revenues, expenditures, and changes in fund balances/ statement of activities	5 - 6
Notes to financial statements	7 - 11
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary comparison schedule - Operating Fund	12

## INDEPENDENT AUDITORS' REPORT

### Members of the Board Ontwa Township-Edwardsburg Police Department

We have audited the accompanying financial statements of the governmental activities and the major fund of Ontwa Township-Edwardsburg Police Department (the Department), as of March 31, 2006, and for the year then ended, which collectively comprise the Department's financial statements, as listed in the contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the respective financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and major fund of Ontwa Township-Edwardsburg Police Department as of March 31, 2006, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 12, the Ontwa Township-Edwardsburg Police Department recorded a prior period adjustment to correct its method of accounting for federal grant revenues.

The budgetary comparison schedule, on page 12, is not a required part of the basic financial statements of the Ontwa Township-Edwardsburg Police Department, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the method of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Department has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

*Siegfried Crandall P.C.*

November 5, 2007



1958-2008

## **BASIC FINANCIAL STATEMENTS**

**Ontwa Township-Edwardsburg Police Department**

**GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS**

March 31, 2006

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of net assets</u>
<b>ASSETS</b>			
Cash	\$ 20,009	\$ -	\$ 20,009
Receivables	365,023	-	365,023
Prepays	15,456	-	15,456
Fixed assets, net	-	54,089	54,089
Total assets	<u>\$ 400,488</u>	<u>\$ 54,089</u>	<u>\$ 454,577</u>
<b>LIABILITIES</b>			
Payables	\$ 15,277	\$ 2,603	\$ 17,880
<b>FUND BALANCE</b>			
Fund balance - unreserved, undesignated	<u>385,211</u>	<u>(385,211)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 400,488</u>		
<b>NET ASSETS</b>			
Invested in capital assets		54,089	54,089
Unrestricted		<u>382,608</u>	<u>382,608</u>
Total net assets		<u>\$ 436,697</u>	<u>\$ 436,697</u>
Operating Fund - fund balance			\$ 385,211
Amounts reported in the statement of net assets are different because:			
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the fund.			54,089
Compensated absences			<u>(2,603)</u>
Net assets of <i>governmental activities</i>			<u>\$ 436,697</u>

See notes to financial statements

**Ontwa Township-Edwardsburg Police Department**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES/STATEMENT OF ACTIVITIES**  
Year ended March 31, 2006

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of activities</u>
<b>EXPENDITURES</b>			
Police service - operations	\$ 540,881	\$ 20,732	\$ 561,613
Debt service:			
Principal	5,945	(5,945)	-
Interest	1,008	-	1,008
Capital outlays	<u>26,680</u>	<u>(26,680)</u>	<u>-</u>
Total expenditures	<u>574,514</u>	<u>(11,893)</u>	<u>562,621</u>
<b>PROGRAM REVENUES</b>			
Intergovernmental support:			
Local units	574,671	-	574,671
Federal	40,826	-	40,826
State	<u>5,838</u>	<u>-</u>	<u>5,838</u>
Total intergovernmental support	621,335	-	621,335
Fines and forfeitures	18,038	-	18,038
Charges for services	<u>1,671</u>	<u>-</u>	<u>1,671</u>
Total program revenues	<u>641,044</u>	<u>-</u>	<u>641,044</u>
<b>NET PROGRAM EXPENSE</b>	66,530	11,893	78,423
<b>GENERAL REVENUES</b>			
Interest income	<u>4,576</u>	<u>-</u>	<u>4,576</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES/ CHANGE IN NET ASSETS</b>	71,106	11,893	82,999
<b>FUND BALANCES/NET ASSETS - BEGINNING</b>	<u>314,105</u>	<u>39,593</u>	<u>353,698</u>
<b>FUND BALANCES/NET ASSETS - ENDING</b>	<u>\$ 385,211</u>	<u>\$ 51,486</u>	<u>\$ 436,697</u>

See notes to financial statements

***Ontwa Township-Edwardsburg Police Department***  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND**  
**BALANCES/STATEMENT OF ACTIVITIES (Continued)**  
*Year ended March 31, 2006*

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Net change in fund balance	\$ 71,106
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Amounts reported in the statement of activity are different because:

Capital assets:

Current year additions	26,680
Provision for depreciation	(20,157)

Long-term debt - payments	5,945
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Change in compensated absences	<u>(575)</u>
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Change in net assets	<u>\$ 82,999</u>
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*See notes to financial statements*



**Ontwa Township-Edwardsburg Police Department**  
**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting policies of the Ontwa Township-Edwardsburg Police Department (the Department), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies:

*a) Reporting entity:*

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Department. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Department has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Department's financial statements. Also, the Department is not a component unit of any other entity.

*b) Government-wide and fund financial statements:*

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all activities of the Department. Currently, all activities of the Department are classified as governmental activities, primarily supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Intergovernmental support and other items not properly included among program revenues are reported instead as general revenue.

Financial statements are provided for the sole governmental fund as a separate column in the basic financial statements.

*c) Measurement focus, basis of accounting, and financial statement presentation:*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Intergovernmental revenues are recognized in the year for which they are intended. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**Ontwa Township-Edwardsburg Police Department**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

*c) Measurement focus, basis of accounting, and financial statement presentation (continued):*

State grants, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the Department.

The Department reports a single major governmental fund, the Operating Fund, which accounts for all financial resources of the Department.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Department has elected not to follow subsequent private-sector standards.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all intergovernmental support.

*d) Assets, liabilities and fund equity:*

- i) Bank deposits* - Cash consists of demand deposits and savings accounts.
- ii) Prepaid items* - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.
- iii) Capital assets* - Capital assets, which consist of vehicles and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Vehicles	5 years
Equipment	5 - 10 years

- iv) Fund equity* - In the fund financial statements, the Operating Fund reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Ontwa Township-Edwardsburg Police Department**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 2 - CASH:**

State statutes authorize the Department to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Department's deposits are in accordance with statutory authority. At March 31, 2006, cash included deposits with financial institutions of \$19,709.

**Deposits:**

Custodial credit risk of deposits is the risk that in the event of the failure of a depository financial institution, the Department will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of March 31, 2006, all of the Department's corresponding bank balances of \$29,888 were covered by depository insurance.

**NOTE 3 - RECEIVABLES:**

Receivables as of year end consist of the following (all are fully collectible and all are due within one year):

Intergovernmental	\$ 360,910
Accounts	<u>4,113</u>
	<u>\$ 365,023</u>

**NOTE 4 - CAPITAL ASSETS:**

Capital asset activity of the Department for the current year was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Capital assets being depreciated:				
Vehicles	\$ 74,543	\$ -	\$ -	\$ 74,543
Equipment	<u>51,413</u>	<u>26,680</u>	<u>-</u>	<u>78,093</u>
Total capital assets being depreciated	<u>125,956</u>	<u>26,680</u>	<u>-</u>	<u>152,636</u>
Less accumulated depreciation for:				
Vehicles	(47,393)	(11,562)	-	(58,955)
Equipment	<u>(30,997)</u>	<u>(8,595)</u>	<u>-</u>	<u>(39,592)</u>
Total accumulated depreciation	<u>(78,390)</u>	<u>(20,157)</u>	<u>-</u>	<u>(98,547)</u>
Capital assets, net	<u>\$ 47,566</u>	<u>\$ 6,523</u>	<u>\$ -</u>	<u>\$ 54,089</u>

**Ontwa Township-Edwardsburg Police Department**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 5 - PAYABLES:**

Payables as of year end consist of the following:

Accounts	\$ 2,981
Payroll	11,367
Intergovernmental	<u>929</u>
	<u>\$ 15,277</u>

**NOTE 6 - LONG-TERM DEBT:**

At March 31, 2006, long-term debt is comprised solely of compensated absences, which are payable upon termination of employment.

Long-term debt activity for the year ended March 31, 2006, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Equipment purchase obligation	\$ 5,945	\$ -	\$ (5,945)	-	\$ -
Compensated absences	<u>2,028</u>	<u>575</u>	<u>-</u>	<u>2,603</u>	<u>-</u>
Total long-term liabilities	<u>\$ 7,973</u>	<u>\$ 575</u>	<u>\$ (5,945)</u>	<u>\$ 2,603</u>	<u>\$ -</u>

**NOTE 7 - PENSION PLAN:**

The Department maintains a defined contribution pension for all full-time employees. Pension expense for the year ended March 31, 2006, was \$8,125. The Department is neither a trustee nor administrator of the plan and, accordingly, the plan is not includable in these financial statements.

**NOTE 8 - CLAIMS ARISING FROM RISKS OF LOSS:**

The Department is exposed to various risks of loss to general liability, property and casualty, and workers' compensation. The risks of loss arising from general liability, building contents, workers' compensation, and casualty are managed through purchased commercial insurance.

**Ontwa Township-Edwardsburg Police Department**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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**NOTE 9 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

Budgetary information - An annual budget is adopted on a basis consistent with generally accepted accounting principles for the Operating Fund. The budget document presents information by function and line items. The legal level of budgetary control adopted by the governing body is the line item level. Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. Actual expenditures in excess of budgeted were as follows:

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Vehicle operations	\$ 15,000	\$ 20,975	\$ (5,975)
Communications	4,800	15,674	(10,874)
Professional services	8,600	10,412	(1,812)
Capital outlay	24,200	26,680	(2,480)

**NOTE 10 - CONTINGENT LIABILITY:**

At March 31, 2006, the Department was contingently liable for approximately \$8,600 (unadjusted for attrition) of accumulated vacation and earned time off.

**NOTE 11 - CHANGE IN ACCOUNTING ESTIMATE:**

During the year ended March 31, 2006, the Department changed its method of accounting for a portion of local support revenue from the Township of Ontwa, previously deferred due to availability criteria. The Department revised its availability criteria to read "expected to be collected within 60 days" rather than actually received within 60 days. As a result of this change in accounting estimate, local unit revenue for the year ended March 31, 2006 includes \$21,109, that would have been deferred under the previous accounting policy.

**NOTE 12 - PRIOR PERIOD ADJUSTMENT:**

During the year ended March 31, 2006, the Department recorded a prior period adjustment to correct its method of accounting for federal grant revenues. As a result, fund balance and net assets at April 1, 2005 were restated as follows:

	<u>Fund balance</u>	<u>Net assets</u>
Balance April 1, 2005:		
As previously reported	\$ 282,262	\$ 321,855
Prior period adjustment:		
Understatement of grants receivable	<u>31,843</u>	<u>31,843</u>
As restated	<u>\$ 314,105</u>	<u>\$ 353,698</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

**Ontwa Township-Edwardsburg Police Department**  
**BUDGETARY COMPARISON SCHEDULE - Operating Fund**  
Year ended March 31, 2006

	<u>Original and amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
<b>REVENUES</b>			
Local unit support:			
Ontwa Township	\$ 471,124	\$ 503,568	\$ 32,444
Village of Edwardsburg	63,400	60,295	(3,105)
School	-	7,054	7,054
Other	-	3,754	3,754
Total local unit support	534,524	574,671	40,147
Federal grants	31,500	40,826	9,326
State grants	6,800	5,838	(962)
Fines & forfeitures	9,500	18,038	8,538
Charges for services	2,500	1,671	(829)
Interest and rentals	2,000	4,576	2,576
Total revenues	586,824	645,620	58,796
<b>EXPENDITURES</b>			
Public safety - police:			
Personnel costs:			
Salaries and wages	346,182	336,226	9,956
Health and life insurance	97,138	89,524	7,614
Payroll taxes	34,000	29,784	4,216
Pension	12,000	8,125	3,875
Training and other	6,833	5,185	1,648
Vehicle operations	15,000	20,975	(5,975)
Insurance	18,500	16,891	1,609
Communications	4,800	15,674	(10,874)
Professional services	8,600	10,412	(1,812)
Operating supplies	10,600	8,085	2,515
Total public safety - police	553,653	540,881	12,772
Debt service:			
Principal	7,927	5,945	1,982
Interest	1,344	1,008	336
Capital outlay	24,200	26,680	(2,480)
Total expenditures	587,124	574,514	12,610
<b>CHANGE IN FUND BALANCES</b>	(300)	71,106	71,406
<b>FUND BALANCES - BEGINNING</b>	314,105	314,105	-
<b>FUND BALANCES - ENDING</b>	\$ 313,805	\$ 385,211	\$ 71,406

**Members of the Board  
Ontwa Township-Edwardsburg Police Department**

In planning and performing our audit of the financial statements of Ontwa Township-Edwardsburg Police Department for the year ended March 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control. Our assessment of the internal control was limited to obtaining an understanding of the internal control sufficient to plan the audit and did not include tests of controls. However, we noted certain matters involving the internal control and its operations that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. (See attached schedule of comments and recommendations.) Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Police Department's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, misstatements due to error or fraud may occur and not be detected by such controls.

This report is intended for the information and use of the Board, management, and others within the Police Department, and Michigan Department of Treasury, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Siegfried Crandall P.C.*

November 5, 2007



1958-2008



***Ontwa Township-Edwardsburg Police Department***  
**SCHEDULE OF COMMENTS AND RECOMMENDATIONS**

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Policies and procedures to assure that employer-paid pension contributions were made timely were not effective. We recommend that employer contributions due be compared to employee withholdings, so as to identify missing (or possibly excess) employer contributions.

Policies and procedures to assure that payroll tax reporting forms are prepared correctly and filed timely were not in place. We recommend that the Department utilize competent individuals to assist in preparation and filing of payroll forms. Further, payroll calculation and reporting options within Quickbooks should be reviewed for conformity with federal and state requirements.

Policies and procedures to assure approval of additional pay due to Chief were not in place. We recommend that holiday and overtime pay of the Chief be documented and approved by a board member.

Policies and procedures to assure that the gross pay expense classifications are consistent with the components of gross pay (holiday, overtime, etc.). As a result, certain budgeted and actual amounts are not comparable. We recommend that payroll be processed in a manner that properly identifies hours worked, the effective rate at which those hours are paid, and, the accounting classification that conforms to the personnel budget amounts. Metric reports should be consistent with pay information.

Policies and procedures to assure that cash balances are complete and accurate were not in place. We recommend that the Department reduce the number of accounts in use, and that monthly bank reconciliations be reviewed periodically, by the Board.

Policies and procedures to assure effective review of vendor invoices were not effective. We recommend that vendors be paid from original invoices rather than statements, that paid invoices be marked "paid," and that payment terms and calculations be reviewed for accuracy and completeness. Approval for payment should be documented on the face of the invoice.

Policies and procedures to assure retention of receipts support were not in place. We recommend that receipts be accompanied by either a Department billing, or a copy of the check stub.

Policies and procedures to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record receivables and payables, and changes in capital assets and long-term debt, and to develop appropriate footnote disclosures were not in place. As in prior years, the Department has relied upon our firm as auditor to identify and develop material adjustments necessary to convert cash basis financial statements into modified-accrual and full-accrual financial statements, and to prepare the financial statements and appropriate disclosures. This service is allowable under current auditing standards and ethical guidelines, and may be the most efficient and effective method for preparation of the Department's financial statements. However, when an organization (on its own) lacks the ability to produce financial statements that conform to generally accepted accounting principles, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated.